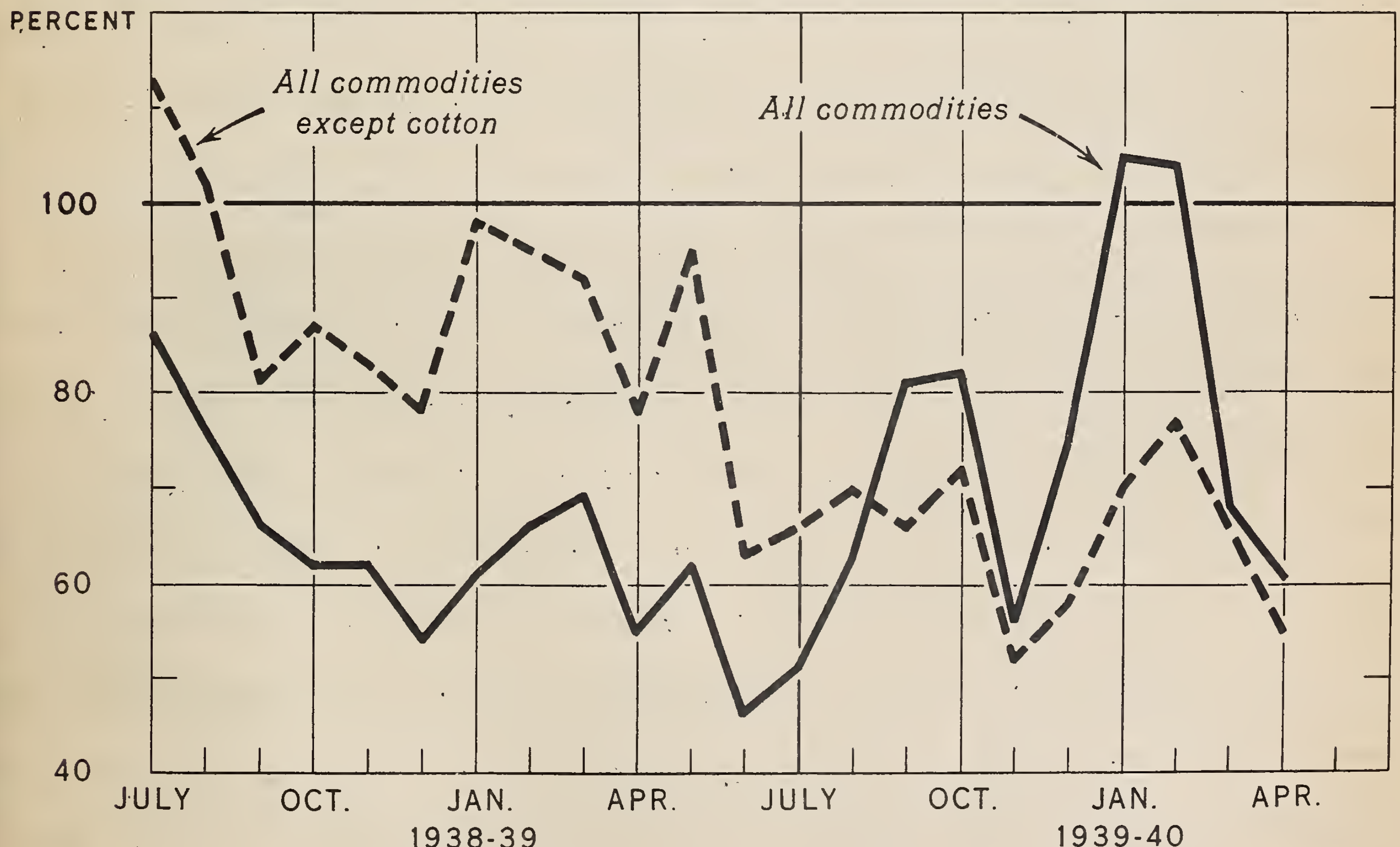
THE Demand and Price SITUATION

BUREAU OF AGRICULTURAL ECONOMICS
UNITED STATES DEPARTMENT OF AGRICULTURE

WASHINGTON, D.C. — BAE — JUNE 17, 1940

VOLUME OF AGRICULTURAL EXPORTS FROM THE UNITED STATES, 1938-40

INDEX NUMBERS (JULY 1909 - JUNE 1914 = 100) ADJUSTED FOR SEASONAL VARIATION



DATA FROM OFFICE OF FOREIGN AGRICULTURAL RELATIONS

U. S. DEPARTMENT OF AGRICULTURE NEG. 38398 BUREAU OF AGRICULTURAL ECONOMICS

The volume of agricultural exports from the United States rose sharply last fall and winter, reflecting increased exports of cotton due mainly to the export subsidy program and the fact that European stocks were low. The combined exports of farm products other than cotton have continued the declining trend which has been evident for some time. The outlook for cotton exports during the coming season season is not favorable. A similar situation prevails for most other commodities unless the belligerants find new sources of dollar exchange, the United States government offers new subsidies, or a more successful German blockade diverts a larger proportion of Allied purchases to North America.

SUMMARY

Industrial conditions affecting the domestic consumer demand for farm products are expected to continue the improvement in evidence since April, if active warfare in Europe continues. This should make the average level of industrial activity in 1940 higher than in 1939. The early cessation of hostilities would necessitate many readjustments on the part of business which could result in declining activity. This would not likely be prolonged or severe, in view of increasing defense expenditures. Consumers' income, having declined much less than industrial production since the high point was reached last December, probably will not increase as much as the indicated rise of industrial activity.

The recent spread of the European war may curtail somewhat further the already greatly diminished export outlets for United States farm products, particularly for cotton. For some commodities, such as dried fruits, closing of the Mediterranean and possible tightening of the German blockade of shipping may eventually lead to improved export demand. Much depends on military and naval developments which cannot be foreseen at this time.

Despite active movements of prices of some individual commodities accompanying the recent German invasions, the general level of wholesale commodity prices has changed little. Most of the price declines were for agricultural products, wholesale prices of which declined about 5 percent from the first week in May to the beginning of June. Prices of both wheat and cotton, which were affected most, were carried to levels generally not far from Government loan values. Prices of cotton have since recovered most of the loss experienced in May. Further panicky liquidation of the extent and character of that which followed the German invasion of Belgium is most likely. Prices of farm

products sold mainly in the domestic market should be benefited by the prospective improvement of industrial activity and consumers' income. With industrial activity increasing, a large-scale domestic preparedness program on the way, and possible increases in export demand for some industrial commodities, if the war continues the chances of any considerable decline in the wholesale prices of nonagricultural products seem quite remote. In view of these conditions, it seems safe to say that with the war continuing there will be no substantial decline in the general level of wholesale prices, and that on the other hand a moderate rise is probable. The termination of active hostilities in Europe might result in a sufficient liquidation of inventories and stoppage of current buying to seriously unsettle many commodity prices, but this would depend in large measure upon the timing and character of these developments.

Both prices and incomes received by farmers in June apparently will be lower than in May. Most of the weakness in prices is for grains and truck crops. The composite index of meat animal prices also is somewhat lower.

The situation by commodities is as follows:

Wheat: Wheat prices generally still are above the levels of a year ago and also above last August before the European war broke out. The world wheat crop of 1940 will not be as large as during the past 2 years, but the domestic crop has improved so that the total supply in the United States may be about the same as last year.

Cotton: The spread of the European war has eliminated most of the mills of Europe as export outlets for American cotton. The mills in the German-controlled area plus Italy consumed about $3\frac{1}{2}$ million bales of all cotton in the years immediately prior to the present war. The price-depressing effects of these developments have been more or less offset by the scarcity of American cotton in private hands and other domestic developments. Domestic cotton manufacturers' sales continue dull and activity further declined to a level in early June about the same as or somewhat below a year earlier.

Feed grains: June 1 conditions indicate that the 1940-41 supplies of feed grains and hay will be ample for the large stock on farms if the growing season continues favorable. Prices of feed grains have declined since early May, largely as a result of the favorable prospects for 1940 crops.

Hogs: Slaughter supplies of hogs increased seasonally during May, but some reduction in marketings is expected during the next 2 months. Hog prices declined steadily during May and early June, losing nearly all of the advance which occurred in April. The 1940 spring and fall pig crops are expected to be somewhat smaller than those of 1939, due chiefly to the unfavorable ratio of hog prices to corn prices since last November.

Beef cattle: Marketings of fed cattle increased seasonally during the past 2 months and probably will continue large during most of the summer. The proportion of cows and heifers in slaughter supplies of cattle has been relatively small in recent months, reflecting the holding back of breeding stock. Prices of slaughter cattle weakened in late May and early June. The spread between prices of the upper and lower grades of slaughter steers has narrowed seasonally in recent weeks.

Lambs: Weather and range conditions have been quite favorable to the development of the lamb crop in Western Sheep States this spring. This may be reflected in larger slaughter supplies of sheep and lambs this summer than a year earlier. Lamb prices declined sharply in early June but remained above a year earlier. Slaughter supplies of sheep and lambs increased seasonally and were a little larger than a year earlier in each of the past 2 months.

Wool: Recent developments favorable to the marketing of the 1940 wool clip include the upturn of industrial activity, the announcement that the War Department will purchase relatively large quantities of wool cloth in the near future, and the sharp decline in imports of apparel wool.

Butter: After some decline in the first half of May, butter prices have been stable in the last 3 weeks. The seasonal price decline probably is about over, with prices decidedly higher than a year earlier. The improvement in consumers' income and lower stocks of butter are mainly responsible for the improvement in butter prices. Butter production has been large and promises to continue so during the pasture season unless weather conditions turn unfavorable.

Poultry and eggs: Supplies of chickens and eggs during the last of this year are expected to be smaller than in the corresponding months of 1939, largely because of a smaller hatch this year than last

Oilseeds, fats, and oils: Prices of most domestic fats and oils, oilseed meals, and oilseeds declined in May, reflecting the loss of foreign markets resulting from the German invasions. With the entrance of Italy in the war, about 10-15 percent of our total foreign outlets for lard, and more than half of the export markets for soybeans and oilseed cake and meal have been affected. Imports of vegetable oils from the Netherlands, on the other hand, have been cut off, as well as fish-liver oils from countries bordering the North Sea. And imports of olive oil from southern Europe and North Africa may virtually cease. The reduction in imports of edible fats from Europe probably will equal or exceed the losses in exports from this country.

Fruit: Fruit production in 1940 probably will be about average, but smaller than in 1939. These smaller supplies together with improved consumer purchasing power may offset the effect of export losses occasioned by the war in Europe.

Truck crops and potatoes: Truck crop prices declined in recent weeks as marketings increased seasonally, and the prospect is for continuing increases in supplies during the next 2 months. Marketings of potatoes during June and July probably will be slightly larger than a year earlier, but the effects of this may be offset to a large extent by a higher level of consumer purchasing power.

DOMESTIC DEMAND

Industrial conditions affecting the domestic consumer demand for farm products are continuing in June the improvement which began in May. As measured by the Federal Reserve seasonally adjusted index, industrial production reached a low of 102 percent of the 1923-25 average in April, rose to around 105 in May, and probably will be at least 110 in June, compared with 98 in June last year. Barring termination of the European war, it seems likely that industrial output will rise even higher, and that the average for 1940 as a whole will be above that for 1939. The early cessation of hostilities, however, might be followed by a decline of industrial production until business becomes adjusted to the new situation and our preparedness program gets sufficiently under way to take up the slack of reduced exports.

Available measures of consumers' income did not decline nearly so much as industrial production from the high point reached last December; hence, the improvement in consumer buying power during the next several months may be correspondingly less than the indicated rise of industrial activity.

Recent developments in connection with the European war are accentuating the rise of industrial production which previously had been indicated by conditions in the several major industries. Steel production had been expected to increase after April, partly because of the favorable export situation. On top of this, the recent German invasion promises to divert to this country a portion of the large volume of steel exports formerly

supplied by Belgium and Luxemburg, and the heavy losses of Allied war materials in Flanders will add to their requirements. The new domestic preparedness program eventually will add to steel consumption in this country. Anticipating possible later shortages because of these conditions, many regular domestic steel consumers apparently have been ordering for inventory as well as for current requirements. These demands, together with a considerable volume of business recently booked at lower prices for delivery before June 29, have resulted in a sharp pick-up of steel output, which has risen from around 60 percent of capacity to about 80 percent within a few weeks. This increase in steel production is mainly responsible for the sharp rise in the Federal Reserve index of industrial activity to date. The mild surge of advance buying of steel, however, may mean that production for ordinary commercial uses is being stimulated now at the expense of output for such purposes later in the year. The net result of these forces, if war continues, should be a higher average rate of output during the remaining months of 1940 than during the first half of the year.

On the other hand, the spread of the European war will have an unfavorable effect upon some domestic manufacturing lines. The German invasion of Scandinavia and the Low Countries and the entrance of Italy into the war has closed some important markets to exporters of industrial products. The Low Countries and Italy in 1938 imported from the United States 230 million dollars worth of goods of all kinds, constituting about $7\frac{1}{2}$ percent of total United States exports. But the exports of these three European countries, excluding those to the United States, in 1937 amounted to about 2 billion dollars, equal to about 60 percent of United States exports in recent years. Thus, the United States would have to capture only about one-eighth of the business represented by former exports from these European markets in order to offset the loss in our exports to those nations.

The fluctuations in cotton prices following the spread of the war in Europe have added to the hesitation of buyers of cotton goods, and domestic production is now running far ahead of mill sales. The declining rate of mill activity which has been in effect since December may continue for some time, although inventories apparently are not burdensome and buying should pick up again as soon as there is some clarification of the price situation. Eventually, increased exports to neutral countries should help our domestic textile industries.

War uncertainties thus far have had no apparent adverse effects on the volume of residential building. Factory construction may be stimulated later in the year as industrial "bottle necks" in the defense program develop. Building construction, therefore, should continue as a favorable factor in the business situation during the remainder of 1940, despite reduced public building expenditures.

Recent estimates of probable receipts and expenditures of the Federal Government indicate an even sharper rise in the net contribution to national buying power during the last half of 1940 than previously had been expected. Of course, additional taxes will deduct from the net outflow, whereas there is some doubt as to how much of the additional defense appropriations can be actually spent before the end of this year. In any event, however, the increase probably will be one of the sharpest on record except for the 1936

bonus distribution. This will give strong support to activity in consumers' goods industries. Although certain lines of consumers' goods recently have been moving in such large volume that some let-up may be experienced shortly, others like shoes and woolen goods are in an opposite situation and should help to support the production of consumers' goods in the remainder of 1940.

If the European war continues active, therefore, it seems fairly certain that industrial activity during the last half of 1940 will be higher than during the first half.

These industrial conditions affecting the domestic demand for farm products would be considerably altered by early termination of the European war. Exports of industrial goods to the Allies and neutral countries might decline sharply. Speculative security and commodity markets might be adversely affected, despite the extensive discounting of such an eventuality in recent price movements. In the face of these uncertainties, businessmen and consumers might postpone buying and financial commitments until the situation clarified. Since inventories of industrial products generally are quite high at the present time, such developments might lead to inventory liquidation and sharply decreased orders for some kinds of manufactured goods. Even orders already booked, such as for steel, might be canceled in considerable volume. It seems probable, however, that intensified domestic preparedness operations would prevent any resulting recession from being very severe or prolonged, and that recovery would occur after the domestic industries began to feel the real effects of large-scale defense measures. These effects, of course, would depend in considerable measure upon the conditions under which the war ended, upon the extent to which we had become dependent upon export orders, and upon the length of the interval between the termination of war and the time our domestic defense program really got under way.

EXPORT DEMAND

The invasion of Holland and Belgium, and the entrance of Italy into the war, has added to the list of countries no longer available as export outlets for United States farm products. Cotton is especially affected, since these countries and northern France include important textile centers.

The Netherlands and Belgium in 1939 took about 10 percent of United States agricultural exports, and constituted, respectively, the fourth and sixth most important outlets for our exports. Holland and Denmark, on the other hand, were important sources of British supplies of pork, dairy products and eggs, and the United States may later obtain a part of this trade. No immediate and substantial increase in export demand for livestock products is likely to result from such a shift, however, since Britain has several possible ways of making up for the loss of supplies without calling upon the United States.

Italy in 1939 took 3.2 percent of our total agricultural exports, of which 93 percent was cotton. Other countries reached through the Mediterranean also may be cut off. Partly offsetting these losses of export outlets will

be decreased exports of some agricultural commodities from these nations. The net result of these recent developments, however, may be a decrease in United States agricultural exports compared with what they otherwise would have been.

As shown in the chart on the cover page, total exports of agricultural commodities from the United States increased sharply beginning last summer, but this was due almost entirely to a sharp rise in cotton exports, which was mainly the result of factors other than the European war. European stocks of cotton had been allowed to run low, and importing nations saw an opportunity to build them up again by taking advantage of the export subsidy program of the United States. The war no doubt helped to stimulate foreign buying because of fears on the part of European importers of later difficulties in obtaining shipping space and the possibility of later restrictions on imports by their Governments. With the greater than usual decrease in cotton exports toward the end of the season, total exports have returned to the level prevailing before the outbreak of war. Total exports excluding cotton, after allowing for seasonal factors and minor irregularities, have continued the general downward trend which has been in evidence for some time.

The general outlook for export demand for agricultural commodities for the remainder of 1940 is quite unfavorable. Even those products which had experienced increases following the outbreak of war, such as soybeans, now face increased difficulties. It is possible, however, that the destruction of European stocks and crops, the partial closing of the Mediterranean to British trade, and later more active raids on Allied shipping will eventually bring about a situation more favorable to our agricultural export trade. This, of course, would depend upon continuation of the European war.

Stocks of American cotton in foreign countries are possibly 1,000,000 bales larger than at the same time last year. Great Britain has recently taken steps designed to restrict consumption, and to limit imports of cotton from the United States and other countries requiring foreign exchange. The important manufacturing markets of Belgium, Holland, northern France and Italy may be cut off for an indefinite period. The average annual consumption of all cotton in these areas totals perhaps 1.5 to 1.8 million bales. With the loss of these market areas in addition to those previously coming under German control, and the recent British restrictions, cotton exports during the 1940-41 season no doubt will be much less than the 6 million bales exported this year.

Wheat exports have been small this season, and are not likely to increase substantially next year except as a result of Government subsidy or purchases for European relief. Canada can supply all the requirements of the Allies if necessary.

The tobacco export outlook also continues unfavorable. Tobacco consumption in Europe, most important export market, no doubt has been reduced by war developments. But stocks abroad also have been depleted, and Great Britain and France eventually will have to come to this country for a considerable portion of their requirements. A part of the latter can be obtained by substituting tobacco from Turkey and Greece if the Mediterranean is not closed to British shipping. In any event, the Allies are very unlikely to

take both their normal share of the 1940 crops and the tobacco from the 1939 crop under option to them.

Although large market supplies of hogs and relatively low prices have made the domestic situation favorable to exports, conditions are quite different from those in effect during the World War when export demand for pork was strong. Great Britain has available larger supplies of meats from domestic production, and can obtain large quantities of pork from Canada and beef from South America. Great Britain has not yet taken nearly so drastic steps to curtail consumption as during the World War. The best possibilities of increasing exports of hog products will be after Britain has used up more of its domestic supplies of livestock as a result of difficulties in obtaining adequate feed supplies.

To replace supplies formerly obtained from Denmark and Belgium, Great Britain can obtain butter and cheese from Empire countries, since transportation difficulties are minimized for these products having high value in relation to bulk. The best possibility of increased exports is for condensed and evaporated milk. Total world exports of concentrated milks in recent years have been only about one-fourth as large as our production of those products, but only 5 percent of the milk produced in the United States is utilized for those products. Hence, we could take over the total export trade of the world in these commodities without appreciably affecting our domestic consumption of all dairy products. Much the same situation exists with respect to eggs. If it is assumed that as much as one-fourth of the reduction in British imports of eggs, due to the recent German invasion, will be replaced by exports from the United States, this would amount to less than 2 percent of domestic production.

Exports of soybeans and soybean cake and meal have been sharply reduced since the German invasion of Scandinavia and the Low Countries. During 1939 over 10 million bushels of soybeans were exported and about 46,000 long tons of soybean cake and meal. The combined purchases of the Low Countries, Scandinavia, and Denmark amounted to about 90 percent of the soybeans exported and also a large share of the soybean cake and meal exports. The 1939 exports of linseed cake and meal amount to about 236,000 long tons, practically all of which went to the above-mentioned countries. During the first 2 months of 1940 exports of these products held up close to the monthly averages for 1939, but since February exports have declined sharply and in recent weeks practically no soybean cake and meal has been exported and only small quantities of linseed cake and meal.

The recent spread of the European war may curtail somewhat further the already diminished export outlets for United States fruits. It is probable that exports of most classes of fruits to the Allies will be even smaller in 1940-41 than during the current season. This about eliminates our principal export markets for fruits. If, however, the war should spread to the Mediterranean countries this outlook would be improved, particularly for dried and canned fruits from the United States. Canada will continue to supply a considerable part of the Allies' requirements of some fresh fruits. Exports of dried fruits normally comprise about 40 percent of the total market for these products, and the recently invaded countries were important outlets

for these commodities. Exports of canned vegetables have continued despite the imposition of licensing requirement by the Allies, and these products may fare better than most other products during the coming season.

If the war is brought to an early conclusion the foregoing outlook for export demand would have to be modified in many respects, but would remain definitely unfavorable.

WHOLESALE COMMODITY PRICES

Despite active movements of prices of some individual commodities accompanying the recent German invasion, the general level of wholesale commodity prices seems to have changed very little. Average prices of semi-manufactured and finished industrial goods have held almost constant, while raw materials in general experienced a slight decline after the first week in May. Most of the price changes were for agricultural products. The Bureau of Labor Statistics index of wholesale prices of farm products declined from 71.3 for the week of May 4 to 67.8 for the week of June 1. The largest declines were in prices of grains and cotton, the index of grain prices falling from 78.8 for the week ending May 4 to 67.5 for the week ending June 1.

The agricultural commodity price declines were mostly for those non-perishable products traded on the futures exchanges. Following the outbreak of war last September many traders were willing to hold these commodities at higher prices in anticipation of later increases in export demand and a possible general price inflation which has accompanied the progress of most wars. The recent German successes suddenly called attention to the possibility that the war might soon be over, with surplus-producing countries subsequently facing disturbed world trade conditions. This prospect probably influenced many traders to unload, and the resulting decline brought forced sales by those whose market position had been weakened by the turn of events. Adding to the demoralization of the markets was the realization that cotton exports were likely to encounter greatly increased obstacles next year, and that domestic grain supplies might be larger than previously had been anticipated. The sharp declines finally carried prices of wheat and cotton to levels generally not far from Government loan values. Although further unfavorable European developments could cause additional unsettlement in the futures markets, the loan values over a longer period of time will offer strong support. Further panicky liquidation of the extent and character of that which followed the German invasion of Belgium, therefore, is not likely.

With industrial activity increasing, a large scale domestic preparedness program on the way, and possible increases in export demand for some industrial commodities, the chances of any considerable decline in wholesale prices of nonagricultural products in general seem quite remote if the war continues. On the contrary, it is probable that prices of numerous industrial

raw materials and some finished products will experience at least moderate increases before the end of 1940. Prices of those agricultural commodities most likely to be unfavorably influenced by adverse war news already have experienced a sizeable deflation, and prices of domestically consumed farm products should be benefited by the prospective improvement in industrial activity and consumers' income. In view of these conditions, it seems safe to say that with the war continuing there will be no substantial decline in the general level of wholesale prices, and that on the other hand, a moderate rise is probable. The termination of active hostilities in Europe might result in a sufficient liquidation of inventories and stoppage of current buying to seriously unsettle many commodity prices, but this would depend in large measure upon the timing and character of these developments.

PRICES RECEIVED AND PAID BY FARMERS

The index of prices received by farmers in June was lower than in May, according to preliminary indications based on price changes in wholesale markets. Most of the weakness was in prices of grains, and truck crops, with the composite index of meat animal prices also somewhat lower.

The general level of farm prices in mid-May was 98 percent of the 1910-14 average, unchanged from April. Reports received by the Department upon which the index of farm prices is based evidently were made before the full effects of the market price declines for grains and cotton had been transmitted to country points. The ratio of prices received to prices paid by farmers was 80 percent of the 1910-14 average.

FARM INCOME

Cash farm income made about the usual seasonal change from April to May, and in May was somewhat higher than a year earlier, but Government payments were smaller than in April and smaller than a year ago.

Cash farm income from grains, cotton, and tobacco declined more than seasonally from April to May. This decline was at least partly offset by a more-than-seasonal increase in income from fruits and vegetables. The decline in income from grains was due to smaller marketings in May at lower prices, and to the completion of payment on corn loans and the redemption of wheat loans in April, which increased the income for that month. Practically all the 1939 cotton crop has already been sold, so that income from cotton during May, June, and July will be negligible. The increase in income from fruits and vegetables in May was due largely to a greater-than-seasonal increase in marketings.

Income from livestock and livestock products, from which the major part of the cash farm income is received in May, increased slightly more than seasonally from April, as sales were relatively large. Prices of meat animals

were about 4 percent higher in May than in April. Prices of chickens and eggs increased 2 percent. Prices of dairy products declined seasonally, but were materially higher than a year earlier.

Farm income is likely to increase less than seasonally from May to June, since prices of some of the more important farm products have declined substantially since mid-May, and sales of wheat in June are likely to be somewhat less than a year earlier because of the marked decline in production in the Southwestern States - the principal area marketing wheat in June. Government payments in June will continue below those of a year earlier.

COTTON

A decline of approximately 1-1/3 cents in domestic spot cotton prices in the first half of May was largely recovered by June 14. These wide fluctuations were apparently influenced by developments in the European war and the improved domestic business situation. The scarcity of American cotton in regular trade channels probably also was a factor influencing the price rise following mid-May, even though additional export markets for American and other cotton have been cut off. The price of Middling 15/16 on June 14 averaged 10.68 cents, compared with 9.71 cents for the week ended May 18, the lowest weekly average since late November, and with 9.78 cents for the week ended June 17, 1939.

Dullness in the domestic gray goods market appears to have continued throughout most of May and early June. This situation, which existed for some time, apparently further restricted mill activity. In May and early June activity had fallen to or below the level of a year earlier. During the first 10 months of the season, activity averaged about one-seventh above the corresponding period last season. During the second week of June manufacturers sales of cotton goods increased sharply and apparently greatly exceeded production. This, and the expected improvement in domestic business activity and consumer incomes (particularly if large shipments of war supplies to the Allies continue) may soon bring an upturn in cotton mill activity.

Cotton consumption and the outlook for consumption in foreign countries has become less and less favorable during recent weeks. The recent entry of Italy into the war means that this important cotton manufacturing country and possibly other Mediterranean countries will be lost for an indefinite period as an export market for cotton from the United States and most other exporting countries. The Italian mills, along with those in northern France, Belgium and Holland, consumed perhaps 1,500,000 to 2,000,000 bales of cotton in each of the past few years. These mills plus those in the area under German control prior to the invasion of the Low Countries, consumed possibly between 3,500,000 and 4,000,000 bales annually in the years immediately prior to the outbreak of war.

Despite the restricted number of European countries to which cotton was exported, exports of American cotton during the past few weeks have,

for the most part, continued greatly in excess of the small quantity exported during the corresponding weeks last year. Most of the exports during these weeks went to Great Britain, Italy and France. Total exports from August 1 through June 13, of 5,921,000 running bales exceeded the total for the corresponding period last year by 85 percent and the total for the like period of 1937-38 by 9 percent.

WHEAT

The precipitous drop in wheat prices beginning May 14 was checked on May 20 following the establishment of minimum futures prices based on the close on May 18, and the announcement by the Secretary of Agriculture of loans for the 1940 crop slightly above the fixed minimum futures prices. Until June 13 prices were generally above the minima and about at the loan values for the 1940 crop. On June 11 the grain exchanges announced the discontinuance of the minimum limits effective June 14, and on June 13 prices dropped to the minima. However, on June 14, except for Minneapolis, prices again closed above the previously established minima.

The loan program for the new crop, announced on May 20, provided for loans to producers of 81 cents per bushel for No. 2 Hard Winter wheat at Chicago, 77 cents for the same grade at Kansas City, and 87 cents for No. 1 Dark Northern Spring at Minneapolis. The schedule of values in the loan program is expected to result in an average loan value to producers of about 64 cents a bushel. This is about 57 percent of the parity price, which on May 15 was $1.13. The 1939 loan values averaged 63 cents per bushel to producers.

At this time of the year until the heavy new crop movement is over wheat prices usually decline seasonally. During the past 2 years when loans have been available, growers have increased the quantity of wheat they placed under loan as prices fell below loan values. This served to check the downwar tendency, and later to strengthen prices. In early September 1938, prices declined to a level of about 9 cents below loan rates, and in late July 1939 they averaged about 15 cents below loan levels. Following these low levels, prices advanced in both years.

Even after the sharp drop, wheat prices still continue above the levels which existed a year ago and also last August before the war broke out in Europe. Hard winter wheat prices at Kansas City are about 6 cents higher than a year ago and about 15 cents higher than in August. On the basis of present prospects it appears that world wheat production in 1940 will be smaller than in the past 2 years when yields were above average. The world acreage may be smaller, growing conditions are below normal in many producing areas, and there is a shortage of farm labor and damage to growing crops in invaded areas of Europe.

The domestic wheat supply in 1940-41 is expected to total approximately 1,016 million bushels. This includes an estimated 1940 crop of 728 million bushels and a July 1, 1940 carry-over of about 288 million bushels. Total supplies a year ago were 1,009 million bushels.

CORN AND OTHER FEED GRAINS

The 1940-41 supplies of feed grains and forages will again be ample for livestock on farms if conditions continue favorable during the remainder of the growing season. An oat crop of 1,021,000,000 bushels was indicated by conditions June 1, which, together with the prospective carry-over July 1 may give a supply of about 1,160,000,000 bushels or around 30 million bushels larger than the 1939-40 supply. The 1940-41 barley supply is indicated to be 361 million bushels, 26 million bushels larger than the 1939 supply and much larger than supplies in any of the preceding 5 years. While it is too early to forecast the 1940 corn supply, a smaller crop appears probable and the supply may be around 100 million bushels smaller than the 1939 supply.

The prospective crops of the four feed grains and the prospective stocks of each of these feed grains at the beginning of the marketing years indicate a feed supply for 1940-41 of around 116 million tons. This compares with 118 million tons last year, which was the largest supply since 1932. These figures are only rough approximations. The first official estimates of these crops will be made July 10. The number of livestock to be fed in 1940-41 is expected to be about the same as in 1939-40, which was the largest since 1933-34.

Condition of pasture and hay crops improved substantially during May and on June 1 pastures were in good to excellent condition over a large area of the country. The condition of pastures for the country as a whole was the second highest on June 1 for that date of any year since 1933. The average condition of the hay crop on June 1 was 83 percent of normal or about 9 points higher than June 1 condition last year and 6 points above the 10-year 1929-38 average.

Feed grain prices declined during May and for the week ended June 8 the price of No. 3 Yellow corn at Chicago was 4 cents per bushel lower, No. 3 White oats 6 cents lower and No. 3 barley at Minneapolis 9 cents lower than for the week ended May 11. Corn has declined much less than other grains since early April. The large quantity of corn sealed or held by the Government and the large number of livestock on farms are principal price-supporting factors. The decline in oat and barley prices apparently was due largely to favorable prospects for the 1940 crops. The barley loan program recently announced by the Commodity Credit Corporation provides for loans from 25 to 35 cents per bushel depending on the grade. Prices in Minneapolis for the week ended June 8 averaged about 15 cents above the loan rates.

Recent developments in the European situation appear to have had little effect upon domestic corn prices. With the large Argentine crop available for European needs and with the price of Argentine corn at Buenos Aires now about 30 cents per bushel below the price of domestic corn at Chicago, little domestic corn can be expected to be exported except through the export subsidy program. Only small quantities of corn have been sold under this program since the sale of 25 million bushels to the United Kingdom early in May.

HOGS

Some decrease in slaughter supplies of hogs is in prospect for the next 2 months. Marketings of sows will increase seasonally during the summer and early fall, however, and this will be reflected in an increase in the average weight of hogs slaughtered. The increase in hog marketings over a year earlier was not so large in May as in most previous months of the current hog-marketing year, and it is likely that this will be the case during the remainder of the year (July-September) as well. Due chiefly to the unfavorable ratio of hog prices to corn prices which has prevailed since last November, the 1940 spring and fall pig crops are not expected to be as large as those of 1939.

Hog prices declined steadily during May and early June, losing practically all of the advance which took place during April. The average price of butcher hogs at Chicago for the week ended June 8 was $5.25. This compares with the recent high of $6.20 for the week ended April 27, and the season's low of $4.90 for the week ended April 6. The average price of butcher hogs in the corresponding week of 1939 was $6.40. The advance and decline in hog prices during the past 2 months, although of smaller magnitude, appears to have been somewhat similar, with respect to the influence of war developments, to that which occurred last August and September.

Slaughter supplies of hogs increased seasonally during May. Federally inspected slaughter for the month totaled 3.9 million head compared with 3.6 million head in April and 3.4 million head in May last year. For the first 7 months (October-April) of the current hog-marketing year inspected hog slaughter totaled about 23 percent larger than in the corresponding period of 1939, but in May the increase over a year earlier was only about 14 percent.

BEEF CATTLE

Marketings of fed cattle have increased during the past 2 months and probably will continue large during most of the summer. The proportion of cows and heifers in slaughter supplies of cattle has been relatively small in recent months, and favorable range and pasture conditions this spring will add further encouragement to the holding back of breeding stock. Slaughter supplies of cows and heifers will increase seasonally during the late summer and fall, but marketings of such cattle are expected to continue smaller than a year earlier throughout the year. Total slaughter supplies of cattle in 1940 probably will differ little from those of 1939.

Prices of most grades of slaughter cattle weakened during the last half of May and in early June. The decline was most pronounced for the upper grades of slaughter steers, prices of which have tended downward since late April as marketings of such cattle increased seasonally. Prices of the lower grades of slaughter steers, on the other hand, have strengthened somewhat since early April. This narrowing of the spread between prices of the upper and the lower grades of slaughter steers reflects the normal spring changes in the relative supplies of the different grades of slaughter cattle. The

average price of good grade slaughter steers at Chicago for the week ended June 8 was $9.55, about 45 cents lower than a month earlier but 25 cents higher than a year earlier. Prices of feeder steers declined rather sharply during May and early June and now are not so high in relation to prices of slaughter cattle as they were in most of the preceding 2 months.

Federally inspected slaughter of cattle totaling 796,000 head in May was about 3 percent larger than in April but about 2 percent smaller than in May last year. Inspected slaughter of cattle in the first 5 months of 1940 totaled about 4 percent more than in the corresponding period of 1939, reflecting chiefly larger marketing of fed cattle. Inspected calf slaughter totaled 501,000 head in May, or about 4 percent more than a month earlier and 2 percent less than a year earlier.

LAMBS

Slaughter supplies of sheep and lambs may be a little larger this summer than last, when weather conditions retarded the development of the lamb crop in the Western Sheep States. With weather and range conditions generally favorable in that area this spring the lamb crop is reported to have developed satisfactorily, and it may exceed that of the year earlier. Unless severe drought conditions should develop in the Range States this summer, the proportion of the lamb crop marketed as feeder lambs probably will be considerably smaller during the summer and early fall this year than in 1939. Weather and pasture conditions early this spring were not so favorable for the development of the lamb crop in the Native Sheep States as last year, and the lamb crop in this area probably will be marketed somewhat later this year than usual. This also may tend to increase total slaughter supplies of sheep and lambs during the summer.

Lamb prices declined rather sharply in the first week of June after holding mostly steady to slightly higher during May. Prices of both old and new crop lambs, however, remained above those of a year earlier. The average price of spring lambs at Kansas City for the week ended June 8 was $10.45 compared with $10.60 a month earlier and $9.15 a year earlier. At Chicago, prices of good and choice shorn lambs (old crop) averaged about $9.25 for the week ended June 8. This was about 25 cents higher than a month earlier and over $1.00 higher than a year earlier. Slaughter supplies of spring lambs have been larger this spring than last, but the effect upon prices has been a little more than offset by stronger consumer demand for meats than in the spring of 1939.

Slaughter supplies of sheep and lambs increased seasonally during May with the increase in marketings of spring lambs more than offsetting the seasonal decrease in marketings of old crop lambs. Inspected slaughter for the month totaled 1,420,000 head, about 5 percent more than in April and about 2 percent more than in May last year.

WOOL

Recent developments favorable to the disposal of the 1940 domestic wool clip, now being marketed, include the upturn in domestic industrial activity, the announcement that the United States War Department will purchase relatively large quantities of wool cloth in the near future, and the sharp decline in imports of apparel wool into the United States. Offerings of wool in most foreign markets are likely to be restricted until the new Southern Hemisphere clip is available in the fall. The sharp decline in domestic mill consumption of wool in recent months is an unfavorable factor in the domestic wool situation, but this condition probably will be improved in coming months.

Sales of wool at Boston continued small in May and prices were irregular. Uncertainties due to the war abroad and the relatively low level of domestic mill consumption appear to have restricted mill purchases largely to immediate requirements. Prices advanced on most grades in the first week of June following the announcement of War Department purchases to be made in the near future. Quotations on country packed 3/8 and 1/4 blood bright fleece wools declined to 34-36 cents a pound grease basis, delivered to mills, in the last week of May. By the end of the following week, however, these grades were quoted at 38 cents. Similar wools sold at 35-36 cents in the first week of May. Wool prices at Boston in May were about 25 percent higher than a year earlier.

Mill consumption of apparel wool in the United States in April was 21 percent smaller than in March and was 11 percent smaller than in April 1939. Consumption on a scoured basis, in the first 4 months of this year was 5 percent smaller than in the same months last year. United States imports (for consumption) of apparel wool totaled 12 million pounds in April compared with 21 million pounds in March and 6 million pounds in April 1939. Imports in the first 4 months of this year, totaling 78 million pounds, were larger than imports for the same months of any recent year except 1937. Despite the large imports, the carry-over of wool into the 1940 domestic season which began about April 1, was relatively small.

The bulk of the 1939-40 clip in South America and the Union of South Africa has been sold. The 1939-40 clips of Australia and New Zealand were purchased by the United Kingdom and resale of this wool to neutral countries has been relatively small.

BUTTER

There was some decline in butter prices during the first half of May, but with increased purchases by the Federal Surplus Commodities Corporation during the past three weeks prices have shown little or no change. The seasonal decline in prices is probably about over. The price of 92-score butter at New York in May averaged 27.6 cents. This was 4.0 cents higher than in May 1939 and the highest for the month since 1937. These higher prices reflect the higher level of consumers' income and smaller stocks of butter.

Production of butter in April was 3 percent higher than a year earlier and about the same as the preceding high for the month in 1938. Weekly reports of production in May and early June indicate that production is continuing at record or near record levels. There are more cows on farms than a year ago, and pastures are much better. These factors, together with the higher level of prices, indicate heavy production during the remainder of the pasture season unless the weather should be unfavorable.

Apparent consumption of butter in April was 3 percent less than the peak consumption for that month a year earlier. This reduction however was due to the decline in the distribution of butter for relief. Trade output through regular consuming channels was 3 percent larger than a year earlier. Retail prices, however, were 17 percent higher than in April 1939. These changes indicate an increase of about 20 percent in consumer expenditures for butter. After allowing for seasonal changes, however, estimated consumer expenditures for butter in April were lower than in earlier months of the year. The decline in business which was in progress during the early part of 1940 stopped in April. With the probability of increased industrial activity during the remainder of the year, some increase in consumer expenditure for butter seems probable.

POULTRY AND EGGS

Total supplies of eggs during the last half of this year are expected to be smaller than in the same period of 1939, since storage holdings at the annual peak on August 1 will be about the same as a year earlier and production during the last half of this year is expected to be less than in the same period of 1939. The number of layers on farms in April was about 4 percent larger than a year earlier. These numbers probably will decline only seasonally until the low point is reached in August but the increase thereafter may be less than seasonal as a result of the smaller hatch this year than in 1939.

The average price received by farmers for eggs remained about the same from mid-April to mid-May. More recently, however, wholesale egg prices declined slightly with the general decline in farm product prices, and Federal Surplus Commodity Corporation purchases were increased substantially.

The out-of-storage movement of dressed poultry at the 26 markets has decreased to a comparatively small volume. Hence, the seasonal increase in receipts of dressed poultry at the four principal markets probably is due to an increase in receipts of freshly dressed poultry, of which fowl perhaps constitute a larger than usual proportion as a result of the smaller hatch this year than in 1939. Total stocks of poultry remaining in storage in the United States on June 1 were 15 percent larger than a year earlier, mostly because of the continued abnormally large holdings of turkeys. Total storage holdings of poultry other than turkeys were smaller than on June 1, 1939.

The price received by farmers for chickens increased contraseasonally between April 15 and May 15 and is likely to continue to rise relative to prices a year earlier, largely on account of the smaller hatch this year.

The feed egg ratio may continue to be less favorable than a year earlier for the next several months.

OILSEEDS, FATS AND OILS

Prices of most domestic fats and oils, oilseed meals, and oilseeds declined in May, reflecting the loss of foreign markets resulting from the German occupation of the Scandinavian and Low Countries.

About 10-15 percent of our total foreign outlets for lard, and more than half of the export markets for soybeans and oilseed cake and meal have been affected by the recent German and Italian moves.

Imports of certain vegetable oils from the Netherlands have been cut off, as well as fish-liver oils from countries bordering the North Sea. With the extension of the war to southern Europe and North Africa in June, imports of olive oil, which normally represent about 5 percent of our total imports of fats, oils, and oil bearing materials, may virtually cease. The reduction in imports of edible fats from Europe probably will equal or exceed the losses in export outlets for United States edible fats and oils.

Immediate prospects for expanding exports of lard and soybeans to the United Kingdom are not very promising. The United Kingdom is reported to have large stocks of vegetable oils and whale oil on hand, and part of the Norwegian whale oil produced in the Antarctic during the past season is being stored in the Western Hemisphere for future British needs. However, if the war is prolonged it is possible that British requirements for American fats eventually will become more pronounced, particularly if the oilseed crushing activity on the east coast of England is reduced by war activities, and if the Mediterranean route remains closed to British shipping.

Although supplies of fish-liver oils in this country will be reduced, and olive oil imports may virtually cease, no serious shortage in the total fat supply can develop as a result of a war confined to Europe, North Africa, and the Near East. About 90 percent of our total imports of fats, oils, and oil-bearing materials normally originate in the Far East, South America, and West Africa. Domestic production of fats and oils, moreover, has now expanded to the point where it is equivalent to about 90 percent of total domestic requirements, although a surplus exists in some lines of edible fats and a deficit in certain industrial oils, notably in the case of the quick-lathering oils for soap and the drying oils.

FRUITS

Conditions as of June 1 indicated average to slightly better than average fruit supplies for the last half of 1940 but generally smaller crops than those of a year earlier. As compared with 1939 the United States peach

crop is indicated to be smaller by 15 percent, cherries 6 percent, and grapes 5-10 percent. The production of pears and fresh plums probably will be about the same as last year, and the condition of commercial apples and of oranges was slightly below that of a year earlier. The condition of grapefruit and lemons was slightly higher than on June 1, 1940.

In addition to the smaller fruit supplies in prospect this season, the outlook is for improved consumer purchasing power during the summer months of heavy marketings compared with a year earlier. The unfavorable factor in the fruit situation for 1940 is the poor export demand prospect occasioned by the spread of the war in Europe. It is probable that only a small volume of fresh fruits will be exported during the coming season, but the situation with respect to dried and canned fruits is becoming somewhat brighter as a result of spread of the war to Mediterranean areas. The export movement of the latter products at the present time is rather dull.

Market prices of stored apples and pears continued to rise seasonally in recent weeks and in late May averaged generally higher than a year earlier. Prices of oranges and grapefruit were also higher than in late April and were considerably above those of a year earlier. Lemon prices showed little change during the month and averaged below those of the corresponding weeks of 1939.

TRUCK CROPS

Market prices of truck crops declined seasonally during May but in early June averaged slightly higher than a year earlier. The trend of prices of carrots, celery and lettuce, however, was sharply upward, reflecting a temporary shortage in market supplies. Supplies of truck crops generally are becoming more abundant and the source is rapidly shifting nearer to market centers.

Production of those crops that are expected to be the principal source of market supplies during June is indicated to be about 2 percent smaller than that of 1939 but 12 percent above average. Supplies of asparagus, snap beans, beets, cabbage, carrots, green peas, tomatoes and watermelons probably will be larger than a year earlier but those of cantaloups, celery, cucumbers, and onions probably will be smaller.

The Federal Surplus Commodities Corporation was buying considerable quantities of cabbage in North Carolina and Virginia during early June, resulting in a sharply increased movement. Commercial shipments of snap beans, beets, cantaloups and similar melons, cucumbers, onions, peas, peppers and watermelons were increasing. Carlot shipments of truck crops usually reach a seasonal peak in June and then decline to a seasonal low in August. The small shipments during the summer months, however, are not an indication of market supplies since the bulk of marketing during these months is moved by motor truck from the market garden areas.

POTATOES

The supply of potatoes available for marketing in June and July is indicated to be slightly larger than that available a year earlier. The combined production in the second section of early States, the second early, and first section of intermediate States totals 34.8 million bushels this season compared with 33.4 million a year earlier. Although a portion of this supply had been marketed by June 1, the bulk remained for shipment after that date. The effect of this larger supply, however, probably will be offset to a large extent by an increase in consumer purchasing power this season over that of last season.

Looking further ahead, the prospect is that the potato crop in the second section of intermediate States (Nebraska and New Jersey) will be considerably larger than in 1939. This will mean rather heavy marketings in late July and in August. Also it is probable that shipments of some of the early maturing varieties produced in the late States will be moving at that time.

As a result of increased marketings of the new crop, market prices of potatoes declined sharply in early June. Prices of some of the leading varieties declined as much as 40 cents per 100 pounds from the relatively high levels established during the last week of June. There were sharp declines also at important shipping points. Much of these declines, however, were seasonal in character. The usual seasonal trend of new potato prices is sharply downward at this period and results largely from a seasonal increase in supplies. Market prices continue to average higher than a year earlier.

Economic trends affecting agriculture
Index numbers: Indicated base period = 100

Year and month	Industrial production 1/	Construction contracts awarded 1/	Factory employment 2/	Factory payrolls 2/	Income of industrial workers 3/	Volume of agricultural exports 4/	Wholesale prices of all commodities 5/	Retail food prices 6/	Prices received by farmers 7/	Prices paid by farmers	Ratio of prices received to paid	Cash income from farm mar-
Base period	1923-25	1923-25	1923-25	1923-25	1924-29	1910-14	1910-14	1913	1910-14	1910-14	1910-14	1924-29
1929	119	117	106	110	107	107	139	166	146	153	95	104
1930	96	92	92	89	88	82	126	158	126	145	87	83
1931	81	63	78	68	67	88	107	130	87	124	70	58
1932	64	28	66	47	46	94	95	108	65	107	61	44
1933	76	25	73	50	48	85	96	105	70	109	64	49
1934	79	32	86	64	61	66	109	117	90	123	73	58
1935	90	37	91	74	69	61	117	128	108	125	86	65
1936	105	55	99	86	80	55	118	130	114	124	92	76
1937	110	59	109	102	94	65	126	135	121	130	93	81
1938	86	64	90	78	73	75	115	125	95	122	78	71
1939	105	72	97	91	83	65	113	122	93	121	77	72
1939 -												
Jan.	101	86	95	87	80	61	112	123	94	120	78	76
Feb.	99	73	94	86	79	66	112	122	92	120	77	73
Mar.	98	69	94	85	79	69	112	121	91	120	76	72
Apr.	92	67	94	84	75	55	111	121	89	120	74	68
May	92	63	93	84	75	62	111	121	90	120	75	70
June	98	63	94	86	80	46	110	121	89	120	74	64
July	101	67	95	87	80	51	110	121	89	120	74	63
Aug.	103	73	96	90	83	63	109	119	88	119	74	66
Sept.	111	73	98	93	86	81	115	125	98	122	80	74
Oct.	121	76	101	100	91	82	116	124	97	122	80	76
Nov.	124	83	103	103	93	56	116	123	97	122	80	76
Dec.	128	86	105	104	93	75	116	122	96	122	79	79
1940 -												
Jan.	119	75	104	102	93	105	116	122	99	122	81	79
Feb.	109	63	102	97	89	104	115	124	101	122	83	84
Mar.	104	62	100	95	87	68	114	122	97	123	79	76
Apr. 9/	102	63	99	95	86	61	115	124	98	123	80	82
May 9/	105						115		98	123	80	

Continued

Economic trends affecting agriculture - Continued

1/ Federal Reserve Board, adjusted for seasonal variation.
2/ Bureau of Labor Statistics, adjusted for seasonal variation (employment adjusted by Federal Reserve and payrolls by Bureau of Agricultural Economics).
3/ Adjusted for seasonal variation. Includes factory, railroad, and mining employees.
4/ Foreign Agricultural Relations, July 1909-June 1914 = 100, adjusted for seasonal variation.
5/ Bureau of Labor Statistics, 1926 = 100, converted to 1910-14 = 100.
6/ Bureau of Labor Statistics, 1923-25 = 100, converted to 1913 = 100.
7/ August 1909 - July 1914 = 100.
8/ Adjusted for seasonal variation. Revised March 1940.
9/ Preliminary.

Note: In comparing trends between industrial production and industrial workers' income, as indicated by the above index numbers, notice should be taken of the different base periods used, and of the fact that income of railway workers, as well as incomes of mining and factory workers, is included in the index of industrial workers' income, whereas the industrial production index is based on mining and manufacturing only. Similar precautions are necessary in comparing trends between industrial production and factory employment and payrolls. The base periods are the same, but the production index includes minerals as well as factory products. Another consideration of importance is that the production index is based on volume, whereas the income indexes are affected by changes in wage rates as well as by time worked. In comparing monthly indexes it is important to keep in mind the fact that there is usually a time lag between changes in volume of production and similar changes in employment and in workers' income.